

Privatization and Development: Context Bangladesh

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Privatization

- Process of converting a publicly operated enterprise into a privately owned and operated entity
- The sale of public utilities to private concerns
- Transfer of public assets to the private sector, by sale or contracting out
- Practice of delegating public duties to private firms

Privatization

- Transfer of government services or assets to the private sector
- Transfer of ownership of property or business from a government to private owned entity
- Is the incidence or process of transferring ownership of a business, enterprise, agency or public service from a public sector (the state or government) to the private sector (business that operate for a private profit) or to private non-profit organizations.

Historical background

- Ancient times and middle ages: Emperors/ Kings were the owners of all land and properties of the empire/ kingdom
- Exception:
 - Ancient Greece: Governments contracted out almost all services to the private sector
 - Roman Republic: Private individuals and companies performed major services including tax collection, army supplies, religious sacrifices and construction

Historical background

- Han dynasty, China: Taoism advocated government to “do nothing”. Ming dynasty practiced privatization in regard to manufacturing industries.
- Britain: Significant privatization began with industrial revolution of late 18th century.

Privatization: Modern times

After the second world war, the world was clearly divided into two blocks, the capitalistic block headed by the USA and the socialistic block headed by the Soviet Union. The Capitalistic block adopted the philosophy of privatization during early 1950s, Winston Churchill's government in UK privatized the steel industry in 1950s. German government privatized the large Volkswagen car industry in 1961. Privatization got momentum in the capitalistic block in early 1980s with Ronald Reagan becoming the President of USA and Margaret Thatcher becoming Prime Minister of UK. After the dismantling of Soviet Union and Russia's adoption of private ownership of wealth triggered privatization process to move even faster.

Causes of privatization

- Dissatisfaction on public sector services
- Public sector
 - Too large
 - Too bureaucratic
 - Consume too much scarce resources
 - Riddled with inefficiency
 - Incapable of providing appropriate services to taxpayers
 - Prone to corruption
 - Wastes of huge resources

Logic behind privatization

- Government involved itself in too many activities, alternative means of provision existed for many of them
- Government should not do things, which others can do better
- Job of government to steer, not to row boat. Delivering services is rowing, and government is not good at rowing
- Public sector enterprises are prone to mismanagement, wastages and corruption
- State control is non-existent in Free Market Economy

Initiatives

- Developed countries engaged in a shift of priorities
 - Moving away from state control to programs directly supportive of private sector activity
 - Maximize role of private sector, minimize role of government
 - Prefer market mechanism to bureaucratic mechanism
 - Rightsizing and downsizing of government to promote private sector

Methods of privatization

- Share issue privatization: sale of shares to the stock market
- Asset sale privatization: sale of an entire organization or part of it to an investor by auction or through donor assistance
- Voucher privatization: distribute shares to citizens for free or very low price – Russia, eastern Europe
- Contracting out/Outsourcing public services – PPP, Joint venture

Arguments in favor of privatization

- Privatization through sale of share can broaden and deepen domestic capital market, boosts liquidity, causes economic growth
- Private market factors can deliver goods and services more efficiently due to free competition
 - Lead to lower price
 - Improved quality
 - More choices
 - Less corruption
 - Less red-tapism
 - Quicker delivery

Arguments in favor of privatization

- Improved performance and efficiency – better incentives
- Specialization – ability to focus relevant human and financial resources onto specific functions
- Improvement – Improvement must to cater needs of customers
- Corruption: Corruption is minimum compared to public sector
- Accountability – Management are accountable to the owners/shareholders
- More job creation
- Cost effective compared to public sector

Arguments against privatization

- Government to lose control on economy
- Profit making motive of private sector tend to monopolize market mechanism and distort the market
- Apprehension of artificial price hike
- Private sector has more scope to engage in corrupt practice
- No accountability of private sector
- Profit motive tends to create syndication
- Economy will become captive of private sector

Advantages and disadvantages of privatization

Advantages

Wider scope

More creativity

Job creation

More incentives

Focuses client/customer needs

Profit reinvested

More capital generation

Disadvantages

Profit maximization

- Unholy practice

Syndication

Minimum accountability

Maximum scope of corrupt practice

Privatization: Global perspective

- USA: historically maintained distaste for federal government intervention in economy. Policy always guided by capitalism. In 1955, Bureau of Budget officially discouraged federal agencies from producing any “product or service which can be procured from private enterprise. In 1980s massive privatization including some core state services like, postal services, prison system, health care, housing, welfare, social security, education, etc. were privatized in various forms.

Privatization: Global perspective

- Russia: privatization began in January 1992 in small scale in services sector like trade, construction, housing, etc through auctions. Mass privatization scheme was taken up in October 1992 with privation of big SOEs through voucher system. 70% of SOEs were privatized by June 1994. It slowed down in late 1990s due to financial crisis and collapse of banking system. Privatization of almost all SOEs including energy and telecommunications sector completed by 2002. Private sector creates about 75% of GDP

Privatization: Bangladesh perspective

- Just after liberation Government of Bangladesh nationalized 381 big and thousands of small industrial units abandoned by the Pakistani owners.
- Privatization of these nationalized units began in 1976 through disinvestment and a large number of these units have been privatized
- Three out of six nationalized banks privatized
- Contracting out public services- Bangladesh Railway, BRTC

Privatization: Bangladesh perspective

- Board of Investment, Privatization Commission established
- EPZs and SEZs established
- Incentives for FDI
- Highest export earning from RMG

Conclusion

- Privatization has both merits and demerits. The whole world, excepting a few countries, have been pursuing Free Market Economy and the concept of strong private sector. As a result state control on most of the manufacturing, goods and services sector have been relaxed or waived. All the Economic Powers of the world follow Free Market Economy and only a few core sectors are under the state control.

Conclusion

- In Bangladesh economy the private sector has occupied a large share, especially, RMG, textiles, sugar, food and allied, printing, packaging, ship building, have developed tremendously. Role of private sector here, excepting few cases, is praiseworthy. It has been proved that the private sector products are cheaper and qualitatively better than public sector products. Government encouragement and incentives attract the private entrepreneurs to invest more and establish more enterprises in the private sector and contribute towards strengthening the economy.



Thank you

Any question?